

INSURANCE

Budget Summary							
Fund	2002-03 Base Year Doubled	2003-05 Governor	2003-05 Jt. Finance	2003-05 Legislature	2003-05 Act 33	Act 33 Change Over Base Year Doubled	
						Amount	Percent
PR	\$32,859,600	\$34,197,200	\$32,441,700	\$32,441,700	\$32,441,700	- \$417,900	- 1.3%
SEG	<u>155,680,400</u>	<u>371,198,900</u>	<u>171,019,700</u>	<u>171,019,700</u>	<u>171,019,700</u>	<u>15,339,300</u>	9.9
TOTAL	\$188,540,000	\$405,396,100	\$203,461,400	\$203,461,400	\$203,461,400	\$14,921,400	7.9%

FTE Position Summary						
Fund	2002-03 Base	2004-05 Governor	2004-05 Jt. Finance	2004-05 Legislature	2004-05 Act 33	Act 33 Change Over 2002-03 Base
PR	121.25	113.25	117.25	117.25	117.25	- 4.00
SEG	<u>13.75</u>	<u>13.75</u>	<u>13.75</u>	<u>13.75</u>	<u>13.75</u>	<u>0.00</u>
TOTAL	135.00	127.00	131.00	131.00	131.00	- 4.00

Budget Change Items

1. STANDARD BUDGET ADJUSTMENTS

	Governor (Chg. to Base)	Jt. Finance/Leg. (Chg. to Gov)	Net Change
GPR-REV	\$0	\$117,600	\$117,600
PR	\$293,200	- \$109,800	\$183,400
SEG	<u>137,000</u>	<u>- 7,800</u>	<u>129,200</u>
Total	\$430,200	- \$117,600	\$312,600

Governor: Provide \$190,800 PR and \$68,500 SEG in 2003-04 and \$102,400 PR and \$68,500 SEG in 2004-05 to adjust the agency's base budget for: (a) turnover reduction (-\$131,200 PR annually); (b) removal of noncontinuing items (-\$489,400 PR in 2003-04 and -\$590,800 PR in 2004-05); (c) full funding of salaries and fringe benefits (\$756,500 PR and \$64,600 SEG in 2003-04 and \$769,500 PR and \$64,600 SEG in 2004-05); and (d) fifth vacation week as cash for certain long-term employees (\$54,900 PR and \$3,900 SEG annually).

Joint Finance/Legislature: Delete funding for fifth week of vacation as cash (-\$54,900 PR and -\$3,900 SEG annually). Require the agency to lapse to the general fund a total of \$58,800 in 2003-04 and a total of \$58,800 in 2004-05 from those PR and SEG accounts or funds from which these fifth week of vacation as cash payments had been budgeted. Estimate GPR-REV of \$58,800 in 2003-04 and \$58,800 in 2004-05. However, specify that the agency is not required to lapse to the general fund any such PR or SEG amount that is from federal funds or that is from another fund source whose lapse to the general fund would be prohibited by state or federal laws or the state or federal constitution.

[Act 33 Section: 9160(3f)]

2. **HEALTH CARE PROVIDER AVAILABILITY AND COST CONTROL FUND (TRANSFER FROM THE PATIENTS COMPENSATION FUND)** [LFB Paper 458]

	Governor (Chg. to Base)	Jt. Finance/Leg. (Chg. to Gov)	Net Change
SEG	\$200,000,000	- \$200,000,000	\$0

Governor: Provide \$200,000,000 in 2003-04 from the patients compensation fund to transfer to a new segregated fund, the health care provider and cost control fund, which would support a portion of the state's share of medical assistance costs budgeted in DHFS.

Health Care Provider Availability and Cost Control Fund. Create the health care provider availability and cost control fund to ensure the availability of health care providers in the state and to control the cost of health care services to state taxpayers, workers, and employers. Specify that the fund could be used to: (a) assist in the education and training of health care providers; (b) ensure that health care providers who serve recipients under MA or other health care programs established by the state receive levels of payment sufficient to retain their participation in the programs and to reduce the risk of shifting costs to private sector employers; and (c) defray the cost of other health-related programs that DHFS determines are effective in ensuring the availability of health care providers in the state and controlling the cost of health care services to state taxpayers, workers, and employers.

Require OCI to administer the fund. Specify that the fund would participate in the state investment fund, and the State of Wisconsin Investment Board would have control of investments and collection of all money loaned or interest earned from the fund.

Funding. Transfer \$200,000,000 in 2003-04 from the patients compensation fund to the health care provider availability and cost control fund. The patients compensation fund pays that portion of meritorious medical malpractice claims which exceeds the provider liability limits of \$1 million per claim and \$3 million per policy year in the aggregate. Health care providers must obtain primary medical malpractice insurance up to the liability limits. Providers then also pay for the protection of the excess professional liability insurance that the fund offers through an annual assessment. This amount is part of the fund's assets, which are in

the form of long-term investments, which the fund maintains to support liabilities, including liability for reported losses and losses that have been incurred but not yet reported. As of September 30, 2002, OCI estimated total assets of the patients compensation fund at \$620.7 million. However, OCI estimated the fund equity, which accounts for all of the expected losses, at -\$10.9 million.

Medical Assistance. Create a continuing appropriation in DHFS to disburse funds from the health care provider availability and cost control fund to support a portion of the state's share of MA benefits costs. Modify the current MA appropriation to reflect that a portion of the state's share of MA benefit costs would be funded from the new appropriation.

Guaranteed Payment. Create a sum sufficient GPR appropriation to pay any portion of a medical malpractice claim that the patients compensation fund is required to pay but is unable to pay because of insufficient funds. Under current law, claims are paid in the order received within 90 days, unless appealed, and if there are insufficient funds, the claims are immediately payable in the following year in the order in which they were received. The bill would make the claims payable within 90 days from the patients compensation fund, but if the patients compensation fund has insufficient funds, the claims are payable within 90 days from the sum sufficient GPR appropriation. The bill would also include the sum sufficient GPR appropriation in the same review, assessment, and withdrawal processes as the patients compensation fund.

Joint Finance/Legislature: Delete provision.

3. SEGREGATED FUND TRANSFERS [LFB Paper 457]

	Governor (Chg. to Base)	Jt. Finance/Leg. (Chg. to Gov)	Net Change
GPR-REV	\$436,400	\$0	\$436,400
PR	\$0	- \$436,400	- \$436,400
SEG	- 436,400	436,400	0
Total	- \$436,400	\$0	- \$436,400

Governor: Delete \$218,200 SEG annually by reducing annual funding budgeted for the operations of the patients compensation fund (\$83,600), the local government property insurance fund (\$75,100), and the state life insurance fund (\$59,500). Transfer the amount of the annual reductions from each of these funds to the general fund in 2003-04 and 2004-05, notwithstanding: (a) the current law provisions that specifies that these funds are held in trust for the benefit of the insureds and other proper claimants; and (b), for the state life insurance fund, the net profits must be distributed annually among the policyholders, as long as the ratio of surplus to assets is between 7% and 10%. These segregated funds consist of premiums paid by the insureds and the interest earned on the funds' cash balances.

Patients Compensation Fund. OCI estimates that the cash balance of the fund will be approximately \$592.2 million at the end of the 2002-03 fiscal year, which is available to cover

any outstanding malpractice claims (including claims not yet reported) and associated expenses since the fund's inception in 1975.

Local Government Property Insurance Fund. The local government property insurance fund makes property insurance available for tax-supported local government property, such as government buildings, schools, libraries, and motor vehicles. OCI estimates that the cash balance of the fund will be approximately \$29.3 million at the end of the 2002-03 fiscal year, which is available to cover claims and operational expenses.

State Life Insurance Fund. The state life insurance fund provides up to \$10,000 of basic life insurance coverage for Wisconsin residents. Current law requires the fund to maintain a surplus between 7% and 10%. Excess surplus is returned to policyholders by dividend payments. OCI estimates that the cash balance of the fund will be approximately \$85.3 million at the end of the 2002-03 fiscal year.

Joint Finance/Legislature: Delete provision. Instead, delete \$218,200 PR annually by reducing annual funding budgeted for the agency's general program operations budget and lapse this amount to the general fund. Increase the amount of PR funds that would be lapsed to the general fund from \$1,226,800 (as recommended by the Governor) to \$1,445,000 in 2003-04 and 2004-05. The Governor's provision regarding PR lapses to the general fund is summarized under Item #16.

[Act 33 Section: 9260(1)(a)]

4. LOCAL GOVERNMENT PROPERTY INSURANCE FUND OPERATIONS

SEG	\$15,086,100
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Governor/Legislature: Provide \$5,980,500 in 2003-04 and \$9,105,600 in 2004-05 to reflect a reestimate of operational expenses associated with the local government property insurance fund (LGPIF). The LGPIF offers property insurance for tax-supported local government property, such as government buildings, schools, and libraries. Operational costs include claims and loss adjustment expenses, dividend payouts, rating bureau assessments, and reinsurance costs. OCI indicates that the LGPIF is insuring more policyholders at higher replacement values, resulting in greater loss payouts.

5. LOAN REPAYMENT

PR-REV	- \$850,000
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Governor/Legislature: Eliminate the requirement that the general fund repay the loan made by OCI in 2002-03 in the amount of \$850,000 to fund the administrative costs of the private employer health care coverage program in the Department of Employee Trust Funds (DETF). Eliminate the requirement that DETF lapse funds from its private employer health care coverage plan GPR appropriation and its private employer health care coverage plan PR appropriation to a sum sufficient GPR appropriation to repay the loan. Eliminate the sum sufficient GPR appropriation established to repay the loan.

Under current law, OCI was required to lapse \$850,000 PR from its general program operations appropriation to the general fund no later than October 1, 2002, as a loan to the general fund. A sum sufficient GPR miscellaneous appropriation was created to repay the loan, not to exceed the sum of the following: (1) any GPR amounts lapsed to the general fund from the DETF private employer health care coverage plan GPR appropriation; (2) the amounts lapsed to the general fund from the private employer health care coverage plan PR appropriation, to the extent that DOA and the Private Health Care Coverage Board determines that program funds are sufficient to lapse; and (3) any amount that is needed to repay all principle and interest costs on the loan, if funds under (1) and (2) are insufficient to repay the loan. DOA is required to pay the principle and interest costs on the loan at the close of each fiscal year, beginning with 2002-03, from the moneys lapsed to the new appropriation. If DOA determines, during any fiscal year, that lapsed moneys would be insufficient to repay the loan within a reasonable period of time, as determined by DOA and OCI, DOA would pay all remaining principle and interest costs on the loan after the close of that fiscal year.

[Act 33 Sections: 632, 669, 1027, 1028, 2642, and 9160(2)]

6. INFORMATION TECHNOLOGY -- COSMOS ENHANCEMENTS [LFB Paper 455]

	Governor (Chg. to Base)	Jt. Finance/Leg. (Chg. to Gov)	Net Change
PR	\$800,000	- \$800,000	\$0

Governor: Provide \$400,000 annually in one-time funding to contract for approximately 1,380 hours of services annually to enhance COSMOS, the computer system OCI uses to license and regulate insurance companies, license agents, and process payments for both, and receive, track, and review insurance policy forms and rate filings. The bill includes \$200,000 annually for OCI's administrative and support services appropriation to reflect that these costs are assessed to OCI's PR general program operations budget on a charge-back basis and, therefore, "double-counted" in the agency's budget.

Joint Finance/Legislature: Delete provision.

7. INFORMATION TECHNOLOGY -- PATIENTS COMPENSATION FUND [LFB Paper 455]

	Governor (Chg. to Base)	Jt. Finance/Leg. (Chg. to Gov)	Net Change
SEG	\$607,800	- \$607,800	\$0

Governor: Provide \$296,500 in 2003-04 and \$311,300 in 2004-05 in one-time funding to develop and implement a new computer system for the patients compensation fund. OCI staff would use the new system to maintain information on participating health care providers'

primary insurance coverage to bill and collect fees, to maintain information on claims, and to resolve noncompliance issues.

Joint Finance/Legislature: Delete provision.

8. ACTUARIAL SERVICES

PR	\$190,400
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Governor/Legislature: Provide \$95,200 annually to purchase actuarial services. OCI would use these actuarial services to: (a) review and approve the annual workers compensation rate filing; (b) review and approve of deviations for credit life and credit accident and sickness insurance rates; (c) determine the prima facie rates for credit life and credit and accident and sickness insurance required every three years; (d) review the annual Medicare supplemental refund calculation reports; (e) review long-term care insurance rate filings; (f) review small employer insurance rate change reports and review of selected rate filings; (g) monitor and provide expertise on the personal lines property and casualty market; (h) monitor and provide expertise on the commercial lines property and casualty market; and (i) assist in the examinations of actuarially complex insurance companies.

9. PATIENTS COMPENSATION FUND AUDITS

SEG	\$124,000
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Governor/Legislature: Provide \$62,000 annually to fund annual audits by the Legislative Audit Bureau. Audits had been done every three years, but changes in national accounting standards now mandate that the fund be audited annually.

10. SEMI-AUTOMATIC PAY PROGRESSIONS

PR	\$121,500
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Governor/Legislature: Provide \$55,100 in 2003-04 and \$66,400 in 2004-05 to fund semi-automatic pay progressions for insurance financial examiners and insurance examiners, as authorized in the latest bargaining contract that has been negotiated, but not yet approved by the Legislature.

11. MEDIGAP HELPLINE

PR	\$89,200
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Governor/Legislature: Provide \$44,600 annually to increase funding for the Medigap helpline administered by the Board on Aging and Long-Term Care. The Board's staff provide information and counseling on Medicare supplemental insurance, long-term care insurance, and medical assistance to individuals who call the toll-free helpline. The helpline is supported from insurance revenues collected by OCI and transferred to the Board.

12. TRAVEL EXPENSES FOR FINANCIAL EXAMINATIONS

PR

\$1,400

Governor/Legislature: Reduce funding by \$40,700 in 2003-04 and increase funding by \$42,100 in 2004-05 to fund projected travel expenses of financial examiners. OCI monitors the solvency of over 300 domestic insurance companies, which requires staff to travel both in-state and out-of-state to conduct periodic, on-site financial examinations.

13. CONSOLIDATION OF STATE ATTORNEYS UNDER DOA

	<u>Governor</u> <u>(Chg. to Base)</u>		<u>Jt. Finance/Leg.</u> <u>(Chg. to Gov)</u>		<u>Net Change</u>	
	<u>Funding</u>	<u>Positions</u>	<u>Funding</u>	<u>Positions</u>	<u>Funding</u>	<u>Positions</u>
PR	-\$158,100	- 4.00	\$158,100	4.00	\$0	0.00

Governor: Delete \$67,800 in 2003-04 and \$90,300 in 2004-05 and 4.0 positions, beginning in 2003-04, to reflect the consolidation of executive branch attorneys under DOA, effective the later of October 1, 2003, or the first day of the third month beginning after the bill is enacted. Reallocate \$235,900 in 2003-04 and \$314,500 in 2004-05 of remaining base level salary and fringe benefits funding that currently supports 4.0 attorney positions (\$303,700 in 2003-04 and \$404,800 in 2004-05) to OCI's supplies and services budget to pay for legal services supplied by DOA. The agency's chief counsel position would not be transferred under the Governor's recommendation.

Joint Finance/Legislature: Delete provision. Direct the Secretary of DOA to delete 31.0 FTE executive branch agency attorney positions, other than attorney positions at the University of Wisconsin System, that are vacant on January 2, 2004, and lapse the associated budgeted non-FED salary and fringe benefits amounts to the general fund in 2003-04 and 2004-05. If fewer than 31.0 FTE agency attorney positions are vacant on January 2, 2004, authorize the Secretary of DOA to delete sufficient additional state agency attorney positions, other than at the University of Wisconsin System, to ensure the elimination of a total of 31.0 FTE state agency attorney positions. The additional fiscal effect of this position deletion requirement is reflected under "Administration -- Transfers to the Department."

Veto by Governor [D-2]: Delete all references to the word "attorney," so that the Secretary of DOA must eliminate 31.0 positions that are vacant as of January 2, 2004. Delete the exemption of the University of Wisconsin System, so that the only executive branch agencies that would be exempted from the position reductions are the Department of Employee Trust Funds and the Investment Board.

[Act 33 Section: 9101(9x)]

[Act 33 Vetoed Section: 9101(9x)]

14. DELETE POSITIONS [LFB Paper 456]

	<u>Governor</u> <u>(Chg. to Base)</u>		<u>Jt. Finance/Leg.</u> <u>(Chg. to Gov)</u>		<u>Net Change</u>	
	<u>Funding</u>	<u>Positions</u>	<u>Funding</u>	<u>Positions</u>	<u>Funding</u>	<u>Positions</u>
PR	\$0	- 4.00	- \$567,400	0.00	- \$567,400	- 4.00

Governor: Delete 4.0 positions that are funded from the general program operations appropriation, beginning in 2003-04. OCI would decide which positions to delete. The bill maintains base funding for salary and fringe benefit costs for these positions.

Joint Finance/Legislature: Adopt the Governor's recommendations. In addition, delete \$283,700 annually from the agency's general operations appropriation to reflect the estimated savings from the elimination of 4.0 positions, beginning July 1, 2003.

15. PUBLIC OFFICIAL BOND

Governor/Legislature: Repeal the requirement that OCI procure for the Commissioner and for each employee a separate public officer's bond that provides \$100,000 of coverage. This change would authorize OCI to purchase bond coverage that it believes is appropriate, based on the risk exposure of each OCI employee.

[Act 33 Section: 2641]

16. PROGRAM REVENUE LAPSE

GPR-REV	\$2,453,600
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Governor/Legislature: Lapse \$1,226,800 annually to the general fund from OCI's general operations PR appropriation.

Veto by Governor [D-3]: Allow OCI to submit an alternative plan to the DOA Secretary for the allocation of the lapse amounts. After reviewing the plan, the Secretary would have the authority to implement it.

[Act 33 Section: 9260(1)]

[Act 33 Vetoed Section: 9260(1)]